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A better option for property-tax relief

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Readers

The recent call for property-tax reform at the Statehouse and in the media is nothing new. In fact, these calls have been incessant since the institution of the property tax in Iowa more than 150 years ago. The current en vogue call for property-tax reform comes from commercial property-tax payers claiming they are treated "unfairly," taxed at too high a rate.

At first glance, it could sound unfair: Commercial and industrial classes of property are taxed at their full market value, while homes are taxed at only 45 percent, the result of the "residential rollback." This feature of Iowa tax code provides that all five property classes in Iowa have their assessed value reduced or rolled back if they are growing too quickly. This rollback has mainly applied to homeowners but can apply to any of the major property classes in Iowa.

However, claims of "unfair" taxation quickly dissolve when you look at the tax preferences afforded to commercial-property owners but not homeowners. For example, commercial-property owners get the benefit of depreciation, a non-cash charge against earnings that reduces their income-tax burden. Also, commercial- and industrial property-tax payers are the primary beneficiaries of tax increment financing (TIF), which essentially shifts commercial and industrial development costs to all property-tax payers.

Iowa has had roughly the same number of houses over the past 15 years, yet residential property taxes have actually increased as a percentage of total property taxes paid. It is also true that growth in commercial-property taxes has outpaced residential property, but proponents of changing the residential rollback seem to ignore one basic fact: The reason commercial property's share of the tax pie has grown faster is because there is more new construction occurring in commercial than residential. In other words, commercial's share has increased because of economic activity, not because homeowners are not paying their fair share.

Property taxes are a zero-sum game: If one class is to pay less, another class will pay more, and the golden mean is harder to find. Modifying or limiting the residential rollback will increase homeowners' property taxes. Another possibility is to use scarce state revenues, income and sales taxes, to replace property taxes, an unappealing option that doesn't target precious state resources to the greatest need.

Recently, the Governor's Commercial Property Tax Task Force came up with two recommendations. The first gives a commercial-property-tax credit of about \$250 to each business in Iowa for the next two years. Although this gesture is not big enough to encourage businesses to move to or stay in Iowa, it still consumes \$25 million in state funds. The task force's second option advocates funneling those dollars into additional state aid to equalize school property taxes, benefiting all property owners, not just those with commercial interests. This is the wisest investment of scarce state resources.

School property-tax rates vary significantly even though the state funding formula partially equalized school property taxes over the last 30 years. K-12 property-tax rates range from below \$10 to more than \$21 per thousand, a far cry from equity. Perhaps the greater sin in the property-tax system is that one commercial property can pay twice the rate of another, depending on location. Last year, the Legislature took the first step but fell short of full equity, buying down the highest school rates. The \$25 million would certainly get us closer to the equalization of school property-tax rates and doesn't play "favorites" among classes.

Although outside the scope of the task force's purview, a statewide penny replacing the local-option sales taxes would further reduce property taxes for school infrastructure in all but the fastest-growing school districts. Buying down high school tax rates and passing the state penny would provide the biggest property-tax relief to commercial and industrial properties, which tend to be located in property-poor school districts (urban centers and county seats).

Within this framework of school funding, state policy ought to promote fair taxes whenever possible. These two policies, tax

equity and the state penny for school infrastructure, accomplish both, providing a good investment in better education for students while promoting tax equity for property-tax payers.

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Graphic: Property taxes paid by types of property.

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